

Michigan Department of Education Deficit District Requirements

Statute Requirements

The following are excerpts from MCL 388.1702 regarding prohibition of deficit budgets or operating deficits; plans to eliminate deficits; and the withholding of state aid payments:

Sec. 102 (1) A district or intermediate district receiving money under this act shall not adopt or operate under a deficit budget, and a district or intermediate district shall not incur an operating deficit in a fund during a school fiscal year. A district or intermediate district that has an existing deficit fund balance, that incurs a deficit fund balance in the most recently completed school fiscal year, or that adopts a current year budget that projects a deficit fund balance shall not be allotted or paid a further sum under this act until the district or intermediate district submits to the department for approval a budget for the current school fiscal year and a plan to eliminate the district's or intermediate district's deficit not later than the end of the second school fiscal year after the deficit was incurred or the budget projecting a deficit was adopted. Withheld state aid payments shall be released after the department approves the deficit reduction plan and ensures that the budget for the current school fiscal year is balanced.

Sec. 102 (4) A district or intermediate district that has an existing deficit fund balance, that incurs a deficit fund balance in the most recently completed school fiscal year, or that adopts a current year budget that projects a deficit fund balance shall submit to the department a monthly monitoring report on revenue and expenditures in a form and manner prescribed by the department.

Sec. 102 (5) If a district or intermediate district is not able to comply with the provisions of this section, the district or intermediate district shall submit to the department a plan to eliminate its deficit. Upon approval of the plan submitted, the superintendent of public instruction may continue allotment and payment of funds under this act, extend the period of time in which a district or intermediate district has to eliminate its deficit, and set special conditions that the district or intermediate district must meet during the period of the extension.

MDE Requirements

Upon discovery of an operating deficit or adoption of a deficit budget by a district the Michigan Department of Education (MDE) will notify the district of its obligation to submit a deficit elimination plan (DEP) to MDE. The DEP is due 30 days after the MDE notification or 30 days after the state school aid budget is passed, whichever comes later.

The MDE will immediately withhold State School Aid payments from:

- 1) A district that fails to meet the MDE deadline for submission of a DEP, or
- 2) A district that meets the deadline for submission of the DEP but the plan is un-approvable as evidenced by:
 - i) the plan is missing required information (approved budget, spreadsheet detail, narrative, etc.);
 - ii) information related to the revenues and expenditures reported within the DEP is not reasonable or verifiable;
 - iii) a deficit that increases rather than decreases in any subsequent year;
 - iv) the deficit is not eliminated within two years of its inception, unless the district has a Superintendent of Public Instruction (SPI) approved extension for extenuating circumstances
 - (1) The MDE's policy is to grant no more than three additional years to eliminate the deficit, matching the hardship period in 388.1615(2);
 - v) the district failed to implement the terms of a previously submitted deficit elimination plan
 - (1) There may be extenuating circumstances that will be taken into consideration when evaluating 2)v). Examples of these circumstances include:
 - (a) unforeseen extreme reductions in enrollment
 - (b) unforeseen reductions in the state foundation (e.g. mid-year proration)
 - (2) These and other similar circumstances may cause the district to violate certain items in 2)v) above. The SPI may, at his/her discretion, waive the violations in light of the particular circumstances.
- 3) A district that, after having its DEP approved, fails to submit monthly Budgetary Control Reports.

The district will continue to receive state aid payments unless they meet 1), 2), or 3) above.

For districts falling into 2) above; MDE will allow the district two weeks from the date of follow-up correspondence from MDE to address the issues and submit a revised plan. The MDE will withhold State School Aid payments from any district that fails to submit a revised, approvable plan within two weeks of the MDE correspondence.

The SPI may approve an extension of the MDE deadline.

Michigan Compiled Laws Penalties the SPI and His Staff May Impose on Deficit School Districts

Withholding State School Aid – MCL 388.1702(1)

388.1702 Deficit budget or operating deficit prohibited; release of withheld state aid payments;

(1) A district or intermediate district receiving money under this act shall not adopt or operate under a deficit budget, and a district or intermediate district shall not incur an operating deficit in a fund during a school fiscal year. **A district or intermediate district that has an existing deficit fund balance, that incurs a deficit fund balance in the most recently completed school fiscal year, or that adopts a current year budget that projects a deficit fund balance shall not be allotted or paid a further sum under this act until the district or intermediate district submits to the department for approval a budget for the current school fiscal year and a plan to eliminate the district's or intermediate district's deficit not later than the end of the second school fiscal year after the deficit was incurred or the budget projecting a deficit was adopted. Withheld state aid payments shall be released after the department approves the deficit reduction plan and ensures that the budget for the current school fiscal year is balanced.**

Set special conditions for the deficit district to meet – MCL 388.1702(5)

(5) If a district or intermediate district is not able to comply with the provisions of this section, the district or intermediate district shall submit to the department a plan to eliminate its deficit. Upon approval of the plan submitted, **the superintendent of public instruction may continue allotment and payment of funds under this act, extend the period of time in which a district or intermediate district has to eliminate its deficit, and set special conditions that the district or intermediate district must meet during the period of the extension.**

Report violations related to deficit spending to Attorney General – MCL 141.439 – 141.440, MCL 388.1761

141.439(1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.

141.440 For local and intermediate school districts, the report of a violation shall be filed with the state superintendent of public instruction instead of the state treasurer. The attorney general shall review the report and initiate appropriate action against the chief administrative officer, fiscal officer, administrative officer, employee, or member of the legislative body. For the use and benefit of the local unit, the attorney general or prosecuting attorney may institute a civil action in a court of competent jurisdiction for the recovery of funds of a local unit, disclosed by an examination to have been illegally expended or collected as a result of malfeasance and not accounted for as provided in sections 17 to 19, and for the recovery of public property disclosed to have been converted or misappropriated.

388.1761 A school official or member of a board or other person who neglects or refuses to do or perform an act required by this act or who violates or knowingly permits or consents to the violation of this act is guilty of a misdemeanor, punishable by imprisonment for not more than 90 days, or a fine of not more than \$1,500.00, or both.



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

February 14, 2013

MEMORANDUM

TO: Local and Intermediate School District Superintendents and
Public School Academy Directors

FROM: Carol Wolenberg, Deputy Superintendent *Carol*

SUBJECT: Early Warning Indicators of Financial Stress

The Michigan Department of Education (MDE) is charged with the responsibility of monitoring Michigan public schools to ensure compliance with various state and federal laws related to prudent financial management and reporting on the use of public funds. In addition to this specific charge, Mike Flanagan, our State Superintendent, along with State Board of Education encouragement, prompted this memorandum to alert districts and local boards of education to early warning indicators of financial stress that could prove beneficial in making difficult financial decisions.

MCL 388.1702 relates to districts that experience a deficit fund balance. The majority of district administrators and local boards of education have been able to manage their district's financial and academic resources and still maintain a positive fund balance. They do this by early detection and correction of some common early warning indicators of financial stress such as:

- Declining Enrollment
- Increasing Staff Costs
- Incurring an annual operating deficit
- Declining Fund Balance
- Increase in Short Term borrowing to meet cash flow needs
- Repeat Audit Findings (especially if material)

However, we have seen a marked increase in the number of districts that have experienced a deficit fund balance. The magnitude of some of these deficits seems almost insurmountable.

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www.michigan.gov/mde • (517) 373-3324

The purpose of this correspondence is to encourage district school boards and administrators to take a serious look at where their district measures on each of these indicators and to determine if the district is experiencing a negative trend on any of them. It is a district board and administration responsibility to make the difficult decisions necessary to ensure that the district remains financially viable.

MDE is working with the Center for Educational Performance and Information (CEPI) to provide common financial health indicators to be included in the MiSchool Data portal. We anticipate that they will be available in the coming months.

In addition, we understand that many districts are currently using software vendors that offer tools utilizing state datasets (data reported by districts to the state) that may help in monitoring the fiscal health of a school district. The links are below.

- Munetrix
- Masadda

We appreciate the fact that the majority of districts and local boards continue to operate within their revenues.

If you have questions regarding this correspondence, please contact Glenda Rader at raderg@michigan.gov or by phone at (517)335-0524.

cc: Michigan Education Alliance
Mike Flanagan, State Superintendent
Tom Howell, Director, CEPI



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHAEL P. FLANAGAN
SUPERINTENDENT OF
PUBLIC INSTRUCTION

April 7, 2011

MEMORANDUM

TO: Local and Intermediate School District Superintendents, Public School Academy Directors

FROM: Carol Wolenberg, Deputy Superintendent *Carol*

SUBJECT: Deficit Elimination Plan Requirements

The Department has developed new requirements related to districts that end a school year with a deficit fund balance or adopt a budget that reflects a deficit. The requirements stipulate that a Deficit Elimination Plan (DEP) is due to the Department 30 days after the deficit district is notified by the Department that a DEP is required or 30 days after the school aid budget for the year is passed, whichever is later. These requirements have been developed pursuant to the language in State School Aid Act Section 102 (MCL 388.1702). The actual requirements are available online at:

http://www.michigan.gov/mde/0,1607,7-140-6530_6605-106599--,00.html

Questions related to these requirements should be directed to Jeff Kolb at kolbj2@michigan.gov or (517) 373-1908.

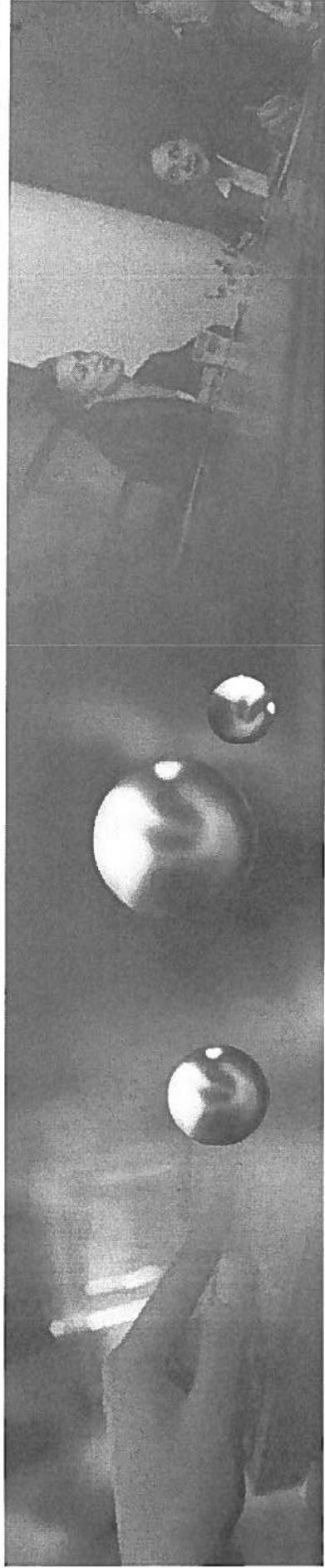
cc: Michigan Education Alliance

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Deficit District Roles & Responsibilities





State School Aid Act

Section 102

- MCL 388.1702

A district or intermediate district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid a further sum under this act until the district submits to the department for approval a budget for the current fiscal year and a plan to eliminate the deficit not later than the end of the second fiscal year after the deficit was incurred.



Uniform Budgeting and Accounting Act

- MCL 141.436

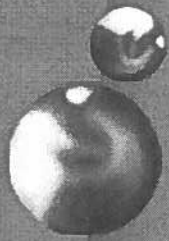
Except as otherwise permitted in MCL 388.1702 the **local school board** shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures including an accrued deficit to exceed total estimated revenues.



Uniform Budgeting and Accounting Act

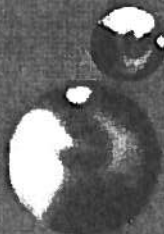
- MCL 141.438

The administration of a school district shall not incur expenditures against an appropriation (Budget) account in excess of the amount appropriated (Budgeted) by the local school board.




District School Board and Administration Responsibility

- Local School Boards, elected by the constituents of local school districts, are charged with the responsibility for allocating financial (revenues) and human (staff) resources to accomplish the various educational objectives of the district.



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District Responsibility

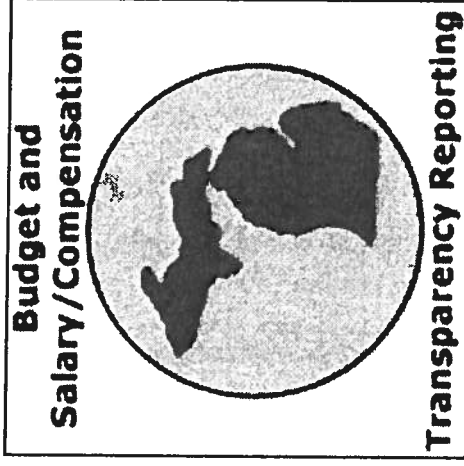
- MDE **does not** make decisions related to the actual expenditures or programs that a district experiencing a deficit will cut to achieve the positive fund balance. Those decisions remain the responsibility of the local school board and administration.




District Responsibility

- MCL 388.1702 Subsection 1

A district must post a complete copy of the Deficit Elimination Plan on their transparency web page no later than 30 days after MDE approval.





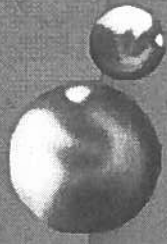
MDE Responsibility

- Establishing Deficit Elimination Plan procedures and forms used to monitor districts that encounter a deficit fund balance (http://www.michigan.gov/mde/0,4615,7-140-6530_6605-106599--,00.html)
- Determining which districts are in a deficit condition
- Collecting, analyzing and determining if a Deficit Elimination Plan is financially reasonable



MDE Responsibility

- Monitoring a district's adherence to a Deficit Elimination Plan by reviewing budgetary control reports
- Enforcing penalties on districts that fail to comply with laws related to their fiduciary responsibility
- Annual report and quarterly reports to the Legislature related to the status of districts with deficit fund balances (MCL 388.1702(2))



Deficit Elimination Plan (DEP) Requirements as Determined by MDE

- DEPs are due 30 days after receipt of MDE notification or 30 days after school aid budget passed, whichever is later
 - Failure to meet deadline results in withholding of school aid as provided in MCL 388.1702
- If DEP is not approvable, district is notified and given two weeks to revise and resubmit
 - Examples:
 - Missing information (approved budget, spreadsheet detail, etc.)
 - Financial assumptions used in the DEP are not reasonable
 - Deficit increases in any subsequent year
 - Deficit not eliminated in two years (up to five years if additional years granted by State Superintendent)
 - DEP does not comply with previously MDE approved DEP (if applicable)



Deficit Elimination Plan (DEP) Requirements as Determined by MDE

- If, after revision, DEP is still not approvable, school aid is withheld until DEP is approved (MCL 388.1702(1))
- If district fails to submit monthly Budgetary Control Report, school aid is withheld until report is filed
- State Superintendent can approve an extension to above deadlines (MCL 1702(5))



Deficit Elimination Plan (DEP) Approval

- **Standard Contingencies**
 - District must:
 - submit monthly budgetary control reports
 - revise DEP if local board adopts a revised budget
 - revise DEP if actual data, such as fall count or audited general fund balance, is significantly different than assumptions used in DEP
- **Special Conditions**
 - Section 102 of State School Aid Act allows MDE to set special conditions, for example:
 - District asked to provide:
 - evidence of staff reductions
 - verification of building closure
 - cash flow statements
 - Enrollment numbers one week after fall count



Local Financial Stability and Choice Act

- PA 436 of 2012
 - Used as a last resort
 - Lists triggers that can result in the determination of local government or school district financial problem
 - State Superintendent determines if a preliminary review is appropriate for a school district
 - State Superintendent submits Preliminary Review to Local Financial Assistance Loan Board (ELB)
 - If a finding of probable financial stress is made by the ELB, the Governor appoints a Review Team



Local Financial Stability and Choice Act

- The Review Team has 60 days (90 days if extension granted) to report to Governor
- Review Team concludes whether district is in financial distress, degree of financial distress, and makes recommendation to Governor
- May result in Governor declaring a financial emergency
- If district declared in financial emergency, district must choose one of four options:
 - Consent agreement
 - Mediation
 - Emergency Manager
 - Bankruptcy



• Contact Information

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